Professional Foster Care

as an Alternative to Residential Care:

It makes economic sense

Professor Brett Inder (Monash University)

Kathryn Gor (Monash University)

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A. Context

There is growing concern in the child welfare sector with the quality of care being provided through Residential Care out-of-home care services. In Victoria, the recommended policy direction is to move away from standard Residential Care as much as possible (Auditor-General Victoria, 2014), largely because it is both expensive and largely seen as ineffective, or even harmful to young people.

Experience internationally, however, suggests that placing children who have a high level of need and behaviour issues into home-based care is problematic (see, for example, Child protection Development, 2011). Volunteer foster carers normally lack the training, skills and availability to provide the level of care that is required. Consequently, high-needs children and young people who are in foster care tend to experience a high rate of breakdown of placements. This is particularly problematic because such high turnover of placements is itself a major contributor to behavioural difficulties and longer term attachment problems, creating a self-perpetuating cycle.

The message of this experience is that reliance on residential care can only be phased out (or reduced) as an alternative and viable model is brought into place. This model would need to be sufficiently robust to avoid the difficulties associated with high failure of placements as described above. A number of recent studies have pointed to the introduction of Professional Foster Care as a viable alternative to Residential Care placements (eg see McHugh and Pell, 2013).

In this report we describe a Professional Foster Care Model, based on variations of existing models developed both in Australia and internationally. The report will present an analysis of its economic viability as compared to the current system.

We stress that the model presented in this report is developed at a relatively high level. It is not in a form that can be implemented as is. More work would need to take place by experts in the policy and regulatory environment to detail its implementation. The main contribution here is in some estimated costings that show the move to a new model actually makes good sense financially. The costings themselves are based on estimates and approximations due to lack of availability of some information or data. Having said that, the analysis is sufficiently conservative that the underlying message is robust to these approximations.

The costing story is compelling: there are substantial savings to be had by following a model along the lines of what we present here. Any variation on this model throughout the stages of critique and implementation is very unlikely to change that story. We hope

that by presenting a robust economic analysis, policymakers can find the courage to take on the journey of transformation, ultimately motivated by the desire for long term improved quality for care for children and young people who are most at risk.

B. Rationale

There are two basic reasons to consider better resourcing home-based care in order to make it possible to direct more young people who currently end up in Residential Care towards home-based care.

1. If Home-based care can provide stable placements, there are strong arguments and some evidence that it provides much better quality of care and living environment.

2. It has potential to save a considerable amount of money, as residential care is a very expensive model for care. For example, the Productivity Commission (2014) report finds that average cost per child of residential care is more than 10 times that of home-based care. The Auditor-General (2014) report suggests average costs of residential care are likely to be much higher due to provision of some services which are attributed to other budget categories, and thus do not show up as direct costs of residential care services.

Of course, it is not that straightforward to simply shift young people in residential care across to home-based care and produce these savings and improved quality. There are two main, related obstacles:

1. The supply of Carers. There is a general shortage of foster carers in the system (Faircloth and McNair, 2012), and this is even more the case with carers who would be able or willing to take on young people who are otherwise in residential care (typically characterised by complex needs, and often a history of previously failed home-based care placements).

2. The Complex needs of many such young people that mean home-based care has a high likelihood of failure, unless additional support is provided.

In this analysis we argue that a strategic investment of resources and new financial models for funding can alleviate these obstacles and thus make it feasible to redirect the vast majority of residential care placements towards home-based care. We also show that such an investment is relatively modest compared to the cost savings of a significantly reduced reliance on residential care. In other words, we propose a model here that delivers significantly improved quality of care without any additional cost burden.

C. The model

There are two main aspects of the proposal.

1. Introducing Professional Foster Care (PFC)

Professional Foster Carers (PFCs) are provided with extensive training (possibly towards a recognised qualification), and payments that extend well beyond reimbursement for estimated expenses. The additional payment in the form of a PFC Fee is designed to reward carers for their time in caring for young people with complex needs, and to make PFC an attractive and feasible option for potential carers, compared to other employment opportunities. We propose that some children and young people be given PFC placements, while others remain in Volunteer foster care and kinship care.

The introduction of PFC will help address the two obstacles described above.

First, consider the obstacle of a lack of supply of carers, particularly for young people with complex needs. A reasonable level of PFC payment will make it feasible for potential carers to consider foster care as an alternative to other employment. It is no coincidence that the decline in supply of carers over recent years is occurring at the same time as adult labour force participation rates have increased, especially for women. Many potential carers cite time constraints associated with their current employment and other responsibilities as a major obstacle to being available for foster care. PFC will help overcome this obstacle for many potential carers.

The second obstacle refers to the high level of complex needs of children. Professionalising foster care has a number of benefits that will contribute to alleviating this concern. First, higher admission standards can be applied, because carers are being recruited to a professional role. This means agencies have the opportunity to recruit carers whose backgrounds, temperaments and skills are suitable for their role as carers of young people with potentially challenging needs.

Secondly, as paid professionals, carers can be required to undertake training, and to play a more active role in the management of the young person's care, including attending meetings and co-ordinating with other professionals. Evidence shows that the main carer plays the greatest therapeutic role in the child's life (Southerland *et al*., 2009), so the better equipped the carer is, and the more available they are to provide care, the greater the support provided to the young person. The PFC Fee compensates the carer for this investment they are making in training and in taking a significant therapeutic role.

The third benefit of PFC in addressing the complex needs of children is with incentives and bureaucracy. It is rightly recognised that support of a young person with complex needs requires a team approach – for example, Khyle Westermark *et al* (2007) recommend a team with professionals who take at least six different roles. The problem this raises is

with the costs of co-ordination, both in time spent communicating, and also delays in decision making that result from the co-ordination complexities. For the professionals who do not live with a young person on a day-to-day basis, a delay, for example, in making a decision about a child's schooling needs is not a major inconvenience. But the carer who has to deal with a child who is unhappy with their current school arrangements, lives every day with the situation and its consequential effect on the child. They have an incentive to resolve issues quickly. When a carer is equipped and empowered to take the initiative on addressing needs, then incentives and responsibility are aligned, and issues are more likely to be addressed in a timely manner, leading to a significant improvement in quality of care and improved carer fulfilment, a key factor in the willingness of carers to continue in their role (for example, a survey reported in Wilks and Wise (2011) finds that "poor experience with government and non-government agencies" was the most frequent major challenge and source of frustration facing carers).

2. Provision of additional professional support for young people in care and their carers

While professionalising foster care will allow the carer to play a greater role in caring for young people with complex needs, it is likely that those who would otherwise be placed in residential care would have needs that require additional external support. This is acknowledged, for example, in the Circle program, which is operating in Victoria for a number of complex foster care cases; in this program it is standard to offer additional professional support (eg see Frederico et al., 2012). Similarly, evidence reported in Child Protection Development (2011) suggests professional therapeutic support is important for improved outcomes for both the young person and the carer.

D. Parameters of the Financial Model

This section gives greater detail on some of the possible parameters for this alternative model, and then later present some scenarios for costing such a model, to demonstrate the potential to deliver significantly improved services and support, with additional financial burden.

1. Professional Foster Care (PFC) Payments

We propose two components to payments to carers.

i. Current practice is to pay a standard home-based care (HBC) allowance to carers. The amount of payment varies with the age of the child in placement, and the payment is intended to cover direct costs associated with a child in care. It is paid on the basis of nights spent in the home of that carer. We do not propose any change to that aspect of the system, except proposing the relevant age-related standard / general foster care rates apply to all placements.

ii. We propose paying a PFC Fee to those carers who are classified as PFCs. As a starting point for consideration, the PFC Fee could be related to the minimum wage. PFCs paid this rate would be obliged to participate in agreed training and to be available for foster care among priority groups of children and young people.

A study by ACIL Allen Consulting (2013) explores various options for how such payments ought to be treated, and concludes that the only viable model is for the PFC fee to be paid on the basis of treating the Carer as a contractor (not an employee). We would also suggest considering the Family Day Care framework for the regulatory and financial arrangements with carers. Under the Victorian Family Day Care model, each Carer is a contractor, but operates under the auspices of a Co-ordination unit who ensures compliance with essential standards of care, physical safety and other documentation.

2. Increasing Home-Based Care (HBC) Reimbursements

There are two reasons to consider an increase in the HBC reimbursement levels. First, they are currently well below the national Foster Care Estimates (FCE) provided in analysis by McHugh (2011). The FCE values are based on estimates of the average incremental cost to the carer of fostering a child. Secondly, with the introduction of Professional Foster Care, it is important to ensure Volunteer foster carers and kinship carers are adequately compensated. In particular, if the gap between the PFC package and the HBC allowance is too high, this could reduce the incentive for some carers to continue in their voluntary roles.

3. Greater Therapeutic support for placements

In order to successfully place and retain children and young people with complex needs in home-based care, it will require more than simply switching the role of carer to a professional one. In many cases carers will need professional support beyond that normally afforded a general foster care placement. We would argue the model's success relies on significant investment in professional support, above the level currently provided. This could include funding to the foster care agency for additional case worker hours, and for providing access to other therapeutic services.

4. Which children are allocated to Volunteer FC and which to PFC?

The specific arrangements for which type of placement young people are given will need to be developed as detail of the PFC model is developed. The costing model developed here allows a variety of scenarios for which categories of young people are given placements with professional carers. The obvious approach is to have the older children and those with more complex needs placed with professional carers.

We will discuss a range of scenarios and costs later, but here we present details of one system which is very different to current practice. The main divergence from current practice is to use an objective basis (such as Age of the child) for allocating children and young people to placement options, rather than just relying on a judgment based on professional assessment of complexity.

Why an age-base criterion compared to allocation based on assessment of level of need / complexity?

-The current system has high complexity, requires judgement on level of need.

-There is incentive on part of funder (government) to downgrade assessment of complexity of a child (saves money).

-Delays in assessment lead to uncertainty in placement conditions which affect the vulnerable young person the most.

-Age is the best predictor of complexity. Residential care and more therapeutic foster care placements are dominated by older children.

The counter-argument is that some young people in PFC placements may be relatively stable and perfectly suited to VFC, but if a purely age-based criterion is used, they may be given a high-cost PFC placement. The carer would be paid at PFC rates when a VFC placement may have sufficed. In other words, money could have been saved on this placement. But while this is true, the saving is not huge in terms of overall cost of

placement. In addition, once costs of assessment of all children in care are taken into account, just to avoid “overservicing” a few, the net result is almost certainly going to be a cost saving from a simple system. International evidence on eligibility for support among vulnerable populations supports this approach. For example, if considering an aged pension scheme in a low income country, it is usually simpler to grant the pension to all who are age-eligible, because there are relatively few are not in genuine need. The cost of means testing is often too high to justify such distinctions being made.

E. Costs

We have developed a spreadsheet model which provides an assessment of costs associated with the current system, which is a mix of home-based care and Residential care, and compares this with costs associated with the alternative system described here. The spreadsheet model allows us to assess the impact on total cost as key parameters for the alternative model (eg the level of PFC Fee) are varied.

1. Costs with the Current System

The spreadsheet model uses publicly available data sources on the numbers of children in care, by age and type of care, and the reported costs of out-of-home care services. Data sources and assumptions are specified in the spreadsheet model documentation. These are also given in the Appendix of this report.

Here are the reported results documenting the estimates of actual numbers of children and young people in care, by age and type of care, the levels of carer payments, and the associated total costs.

Table 1:

A. Estimates of Actual Numbers and Costs 2014-15

Numbers in Care

	Estimated numbers in each type of Care					
Age	Kinship	Foster General	Intensive	Complex	Residentia	Total
0to7	1370	1049	117	0	28	2564
8to10	583	347	99	50	45	1125
11to12	379	194	97	32	68	770
13to17	915	467	234	78	354	2048
Total	3248	2058	546	160	495	6507

Carer Payments

	Carer payments 2014/15			
Age	Kinship	General	Intensive	Complex
0-7	$7,448	$7,448	$12,050	$37,647
8 to 10	$7,779	$7,779	$13,108	$37,647
11 to 12	$8,835	$8,835	$15,825	$37,647
13+	$11,916	$11,916	$22,210	$37,647

Costs

Total Carer Payments	$62,243,325
Home-based Care other costs	$128,552,943
Residential Care Total Cost	$197,754,474
Total Cost	**$388,550,742**

2. Alternative Model

The alternative model is implemented with a set of assumptions for key parameters. These parameters determine the functioning of the model in terms of level of payments

and other support for carers, and also project the likely mix of young people in different types of care. By varying the parameter values, the total cost of the alternative model can be explored.

The parameters are detailed in Table 2 below.

Table 2

Parameters of the Model	
% shift of case load from Residential Care to Complex Foster Care	With the introduction of Professional Foster Care, the expectation is that some % of residential care placements will be replaced with PFC placements. This parameter is the estimated %age of load shifted. The higher this %, the lower the total cost, because of the higher cost associated with residential care, compared to Professional Foster Care.
% increase in Carer Payments	The model proposes an increase in the Home-based carer payments / reimbursements. This parameter is the % increase over the 2014-2015 levels for kinship or general foster care. A bigger %age means higher costs.
Weekly PFC Fee	The Professional Foster Care (PFC) Fee will be paid to all carers who are classified as professionals.
% Admin on-costs associated with PFC fee	There will be other costs associated with the payment of the PFC Fee. With the fee paid as a contractor payment there will not be salary-related on-costs such as superannuation or worker's compensation insurance. However, there will be costs of administering the fees at the government and agency level. The costs are captured in the model as a %age of the Fee itself. A higher % means higher total costs.
Additional Professional support for Intensive & Complex Cases	This is a cost allocation that allows for the provision of additional therapeutic support for certain placements. It is an annual amount per placement. A higher allocation means higher overall costs.
Which Children are in PFC placements?	The model allows for certain categories of children and young people to be given PFC placements and others to go to placements with volunteer carers. The model allocates all children in a particular category to one or the other type of placement. More nuanced allocations can be made, but this suffices to illustrate how costs vary. The more categories that are given PFC, then total costs will be higher.

2.1 A Recommended Cost-Neutral Scenario

The model is applied with a set of parameter values that produces a total cost very similar to the current total cost for out-of-home care services. The scenario represents a realistic and desirable set of allocations and payments for the sector. We will first provide some explanation for the selection of parameter values.

Increase in Carer Payments: 50%

> This increase takes the level of carer payments up to close to the Foster Care Estimates used in other studies (McHugh, 2011). With the introduction of Professional foster care, it is also important that those who operate as volunteers

are well compensated for the costs of caring for a child, so that financial disincentives for this type of care are removed.

Professional Foster Care Fee: $962pw, or $49,998pa.

This amount is 50% above the 2014 minimum wage. It represents less than what a professional in the welfare sector might expect to earn, but given the contracted tasks are home-based and largely integrated into home life, it is not necessary for the fee to match those kinds of levels. The Fee would, we argue, be sufficiently attractive to help potential carers to consider this as a realistic alternative to paid employment.

% Admin on-costs associated with PFC Fee: 30%, or $14,999pa.

This is an estimate, based on what we think may be a reasonable cost of administering the payment at the DHS or Agency level (say, 10% of payment), plus some management of the contracting relationship. Note standard costs of managing the foster care relationship (supervision, safety inspections, etc), as are already incurred in the existing volunteer foster care arrangements, are incorporated elsewhere in the model. This cost is just the incremental cost of managing the PFC Fee and associated additional contractual arrangements.

Additional Professional Support for Intensive and Complex Cases: $11,000pa.

The recommended allocation is based on the allocation used in the Circle program, which works with complex foster care places. A similar amount is allocated in that program for therapeutic support for the young person and the carer (Frederico et al, 2012).

Which children are in PFC Placements?

This scenario is run with professional foster care being applicable for all intensive & complex cases, and for those classified as general foster care for all children aged 13+. The case for PFC placements for intensive and complex cases is obvious: these are the children with the greater need, and where professional placements can be best used. To include general placements for young people aged 13+ is a response to the discussion earlier about the desire for simplicity and where possible, objectivity in deciding on the placement type. The purpose here is to demonstrate that such a broad approach to implementing professional foster care is feasible from the point of view of total cost.

% shift of case load from residential care to professional foster care: 67%

This is a prediction based on a view about how effective the introduction of professional foster care will be in recruiting carers who are able to handle the

challenging behaviours of young people previously in residential care. With all the extra resources and training allocated to PFC placements, one would hope that the vast majority of cases who might otherwise have gone to residential care could instead be well managed within a PFC placement. At the same time, we acknowledge there may remain a need for a small number of residential care placements. The scenario here suggests that a realistic aim is to reduce reliance on residential care to at most 33% of its current levels.

The scenario results are given in Table 3. The total cost for this scenario comes very close to the current cost – costs are 0.13% higher. This demonstrates that the savings from reduced reliance on residential care are substantial, and can very adequately fund a much strengthened Volunteer foster care and kinship program, plus fund the establishment of a wide ranging and well supported professional foster care program.

Table 3

B. Estimates of Numbers and Costs with alternative Model						
Assumptions						
% shift of case load from Residential Care to Complex Foster Care	67%					
% increase in Carer Payments	50%					
Weekly PFC Fee	$962	$49,998 annually				
% Admin on-costs associated with	30%	$14,999 annually				
Additional Professional support for Intensive & Complex Cases	$11,000					
Which children are in PFC Placements?	Kinship	General	Intensive	Complex		
0to7	No	No	Yes	Yes		
8to10	No	No	Yes	Yes		
11to12	No	No	Yes	Yes		
13to17	No	Yes	Yes	Yes		
Numbers in Care						
Age	Kinship	Foster General	Intensive	Complex	Residentia	Total
0to7	1370	1049	117	19	9	2564
8to10	583	347	99	80	15	1125
11to12	379	194	97	78	22	770
13to17	915	467	234	315	117	2048
Total	3248	2058	546	491	163	6507
Carer Payments						
	Total Carer Payments, including PFC Fees					
Age	Kinship	General	Intensive	Complex		
0-7	$11,172	$11,172	$61,170	$61,170		
8 to 10	$11,669	$11,669	$61,667	$61,667		
11 to 12	$13,253	$13,253	$63,251	$63,251		
13+	$17,874	$67,872	$67,872	$67,872		
Costs						
Number of children in PFC placements	1038					
Total Carer Payments	$161,178,544					
Home-based Care other costs	$162,628,053					
Residential Care Total Cost	$65,258,976					
Total Cost	**$389,065,573**					

The most positive result of this scenario would be a significantly improved quality of care for young people, and a sustainable model for the Out-of-home care sector, with much greater potential for recruitment of carers.

2.2 Model Variations and Sensitivity

The spreadsheet model is built to allow easy experimentation with the model, including the levels of payments and mix of placement types. The model is available for interested parties to explore scenarios they might consider relevant. We will document just a few of the obvious model variations and their implications here.

First, the affordability of the model depends critically on significantly reduced reliance on residential care. For example, if instead of reallocating 67% of the current residential care placement numbers to PFC, we are only able to reduce the numbers by 50%, this adds close to $24 million to costs. Conversely, if residential care can be reduced even further to, say 20% of current levels, this saves almost $19 million in costs.

Secondly, the home-based care allowance component of carer payments is not a huge contributor to costs. For example, if there is no increase in HBC allowance (instead of the recommended 50% increase), this will reduce the total cost by about 10%. Bearing in mind the current lack of supply of carers, the increase in allowance could be critical to retaining and potentially expanding this pool of carers.

The PFC Fee is obviously an important parameter to determine. It is hard to know what impact different fee levels might have on supply of potential carers. This may require some market testing to determine. We are proposing a healthy but not excessively high fee, so that PFC is seen as sufficiently attractive to produce a good pool of applicants, but is also financially viable. If the fee was set at the minimum wage of $33,332pa (2/3 of the level in our recommended scenario), this does save close to $30 million in total costs, but the concern is with how potential carers might view a fee set at this level.

Finally, there is room to explore the cost implications of varying the types and number of placements to PFC compared to volunteer foster care. For example, focusing PFC on just Intensive and complex cases would save about $24 million on the proposed model. However, the risk is that too narrow a use of PFC placements may result in use of volunteer placements for cases that are at risk of placement break-down. This can contribute in turn to challenging behaviours that rapidly escalate into more complex needs, and incur even greater costs. So there is a case for less restrained allocation of funds and cases to PFC placements, as a preventative (and ultimately cost-saving) action.

F. Summary

There are huge potential cost savings from reallocating a large proportion of cases who might otherwise end up in residential care to some form of home-based care.

These savings allow allows substantial increases in payments to volunteer foster carers and kinship carers, as well as quite attractive professional foster care financial and other support. This has the potential to deal with the general shortage of home-based carers, as well as attracting and retaining high quality professional carers who are well trained and able to handle the challenges of young people with difficult behaviours.

The scenario presented here is close to a "complete and realistic package" for a redesign of the system, one that is delivered at essentially the same costs as the current system. If more than 67% of children who would otherwise be placed in residential care can be given PFC placements, then this model will actually be cheaper than current system, despite sizeable increases in payments and other resourcing across all VFC and PFC levels.

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Appendix: Details of the Aggregate Costing Model

A. Explanation of Model

A. Estimates of Actual Numbers and Costs 2014-15 (Page 1)	
Data from official public sources is used to estimate numbers in care according to the various age categories, and categories of type of care	
Current Carer payments are then used to estimate total cost of carer payments	
Publicly available data sources give total cost of services, splitting into residential Care and home-based care.	
B. Estimates of Numbers and Costs with alternative Model (Page 2)	
Model Assumptions	
The Cells highlighted in Yellow can be changed by the user to examine the effects of varying the levels of each of these components of the model.	
% shift of case load from Residential Care to Complex Foster Care	Enter as a %, between 0% and 100%. This is the % of current Residential Care placements that could be catered for under complex Foster Care under the new model
% increase in Carer Payments	Enter as a %, between 0% and 100%. This is the %age increase in carer payments to be implemented in the new model.
Weekly PFC Fee	Enter as $ amount, weekly PFC fee
% Admin on-costs associated with PFC fee	Enter as a %, with minimum value 0%. This covers the admin costs associated with payment of the PFC fee, as a % of that fee.
Additional Professional support for Intensive & Complex Cases	Enter as a $ amont, annual cost per placement. The model applies this cost to all Intensive and Complex Foster Care placements.
Which Children are in PFC placements?	Insert a "No" in each category for which PFC would not be utilised.
Results	
Numbers in Care	These are based on the 2014 estimated actuals. The only variation is that a certain %age (specified in the assumptions) of Residential Care children are shifted into the Complex Foster
Carer Payments	These use the 2014-15 payments as a base. The reimbursement component across all categories is the current General Foster Care payment for the relevant age, plus the %age increase specified in the assumptions. For the categoreis where PFC placements are provided, the payment then has a second component equal to the PFC Fee specified in the assumptions.
Costs	
Total Carer Payments	The total carer payments takes the Carer payments schedule and multiplies up by the number of children in each category.
Home-Based Other Costs	This is first scaled up by the increase in numbers in home-based care (due to reductions in Residential Care). The additional cost of administering PFC Fee is then added in, as is the additional Professional Care costs for the relevant cases.
Residential Care Total Cost	This scales down the actual residential care costs by the reduction in numbers of Residential Care placements.

B. Notes and Data Sources

Numbers in Care

Australian Institute of Health & Welfare Report (2014), "Child Protection Australia 2012-2013"

Tables A28, A29 and A31 are combined to produce numbers in each type of care as of June 30th, 2013

Age groups are reallocated to align with Victorian Carer Payment categories by evenly

No public data is available on the level of Foster Care children are placed in (General, Intensive, Complex)

It is stated in McHugh & Valentine (2011, p.13-14) that these categories are designed to have a maximum of 30% in Intensive, and 10% in Complex.

Actual percentages are likely to be lower than this.

Numbers are allocated to each level according to the following % assumptions.

Assumptions re Foster Care %ages				
	General	Intensive	Complex	Complex
0to7	90%	10%	0%	0%
8to10	70%	20%	10%	10%
11to12	60%	30%	10%	10%
13to17	60%	30%	10%	10%

Carer Payments

Source: DHS website, for 2014-2015

Costs

These are found in Productivity Commission Report on Government Services 2014, Chapter 15: Child Protection Services

Table 15A.3 gives total costs for Residential Care and Home-based care for Victoria for 2012-2013

These costs are then inflated to 2014-2015 values, assuming inflation rate based on Australian CPI.